

GENERAL FOODS LIMITED

AND ITS SUBSIDIARIES

29th November 1986



Coopers
& Lybrand

GENERAL FOODS LIMITED AND ITS SUBSIDIARIES

REPORT OF THE DIRECTORS FOR THE 52 WEEK PERIOD ENDED 29 NOVEMBER 1986.

The directors present their report and the consolidated financial statements of the group for the period ended 29 November 1986, which are to be presented at the annual general meeting of the company.

SUBSIDIARIES

The company's principal operating subsidiaries in the period have been Coffee Hag (UK) Limited, a company engaged in the importation and sale of foodstuffs and decaffeinated coffee, and Maxpax (UK) Limited, a company which is engaged in the purchase and modification of vending machines for sale. The Kenco Coffee Company Limited was acquired on 3rd January 1987.

REVIEW OF THE BUSINESS

Volume growth in 1986 over a comparable time basis for the previous year has been due to a strong coffee performance and the introduction of new products, which in turn have been backed by increased advertising expenditure. The company initiated a voluntary redundancy scheme throughout the organisation as a result of which significant costs were incurred in 1986 but which in the long term will generate cost benefits. Overall the results are satisfactory and provide a basis for further growth in the coming year.

RESULTS AND DIVIDENDS

The profit on ordinary activities after taxation of the group for the period amounted to £7,854,000 (November 1985 £7,532,000).

On 26 November 1986 the directors resolved to pay an interim dividend of £21,300,000 (1985 - Nil) to all holders of £1 ordinary shares as at the close of business on 26 November 1986. The directors do not propose a final dividend.

The net retained loss of £(13,446,000) (November 1985 profit £7,532,000) has been transferred to reserves.

RESEARCH AND DEVELOPMENT

Research and Development activities during 1986 continued to be focussed on new product development and improvements to established products and processes.

FUTURE DEVELOPMENTS

The group plans to continue as a UK based manufacturer of coffees, custards and desserts marketed under the well established Maxwell House and Bird's trade marks, and as a leading vending company under the Maxpax trade mark. The acquisition of the Kenco Coffee Company Limited in January 1987 will increase the group's activity in the roast and ground sector of the UK coffee market.

DIRECTORS AND THEIR INTERESTS

The following were directors of the company during the period:

RVJ Cadbury		
MAE Guest		
RJD Halliday		
CH Harmer		
P Humpherson		(Appointed December 1st 1986)
JM Keenan	(USA)	(Chairman)
DA Lacy		
NS McCluskey		
WJ Nightingale		
NP Ouellette	(USA)	
TP Park	(USA)	
ER Shames	(USA)	
AM Shaver	(USA)	
DE Soffe		(Managing Director)

Under the articles of association of the company, all directors except the managing director will retire at the annual general meeting, and all are eligible for re-election.

There are no directors' interests which fall to be declared under the Companies Acts and Orders made thereunder.

MARKET VALUE OF LAND AND BUILDINGS

The directors estimate that the market value of land and buildings included in the consolidated accounts at a net book value of £5,147,000 (November 1985 - £4,903,000) is approximately £16,400,000 (November 1985 - £15,750,000).

TANGIBLE FIXED ASSETS

Changes in tangible fixed assets are set out in Note 8 to the financial statements.

EMPLOYMENT POLICIES AND INVOLVEMENT

The group adopts a policy of non-discrimination in the employment of disabled persons and continuity of employment of persons who become disabled. Policies related to training, career development and succession are applied equally to disabled and able-bodied employees.

The group believes in and supports the development of a working environment which encourages employee involvement in the business. Information about the group and its business is provided to all employees on matters likely to be of concern to them in meetings, a company newspaper, an annual employee report and by other traditional communications. Trade union representatives and other employee groups regularly receive information about the business.

There are formal agreements with five trade unions permitting negotiation, discussion and consultation. Joint consultative committees discuss safety and pension matters. The field sales-force views are sought and taken into consideration through a sales consultative committee. Ad hoc consultative working parties consider particular issues.

The group actively promotes an employee suggestion scheme and a general manager's award programme. Both are open to all employees.

DONATIONS

During the period, the group has made donations for charitable purposes amounting to £46,500 (November 1985 £15,000). No donations were made for political purposes.

AUDITORS

A resolution to re-appoint the auditors Coopers & Lybrand will be proposed at the Annual General Meeting.

By Order of the Board

Company Secretary

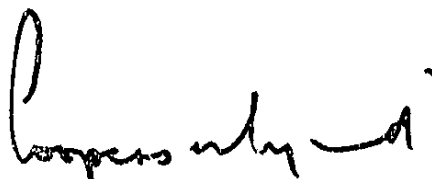
6th January 1987

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Auditors' report to the members of
GENERAL FOODS LIMITED

We have audited the accounts on pages 5 to 19 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group at 29 November 1986 and of the group's results and source and application of funds for the period then ended and comply with the Companies Act 1985.



Chartered Accountants
LONDON, 6 January 1987

GENERAL FOODS LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE 52 WEEK PERIOD ENDED 29 NOVEMBER 1986

	Notes	52 Week Period		39 Week Period	
		Ended 29 November 1986	Ended 29 November 1986	Ended 30 November 1985	Ended 30 November 1985
		£'000	£'000	£'000	£'000
TURNOVER	1 & 2		238,632		155,973
COST OF SALES			(209,094)		(133,223)
GROSS PROFIT			29,538		22,750
Distribution costs		(11,776)		(8,235)	
Administrative expenses		(6,083)		(4,184)	
Other operating income		156		117	
			(17,703)		(12,302)
OPERATING PROFIT			11,835		10,448
Interest Receivable	3	1,839		1,291	
Interest Payable	3	(2,171)		(2,011)	
			(332)		(720)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2 & 3		11,503		9,728
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	5		(3,649)		(2,196)
PROFIT AFTER TAXATION			7,854		7,532
DIVIDEND PAID			(21,300)		-
RETAINED (LOSS)/PROFIT	16		(13,446)		7,532

GENERAL FOODS LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 29 NOVEMBER 1986

	Notes	November 1986		November 1985	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	8	41,003		34,356	
Investments	10	<u>927</u>		<u>-</u>	
			41,930		34,356
CURRENT ASSETS					
Stocks	11	25,595		21,721	
Debtors	12	45,104		35,161	
Cash at bank and in hand		<u>1,473</u>		<u>15,739</u>	
		72,172		72,621	
CREDITORS: amounts falling due within one year	13	<u>49,258</u>		<u>29,093</u>	
NET CURRENT ASSETS			<u>22,914</u>		<u>43,528</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			64,844		77,884
CREDITORS: amounts falling due after more than one year	14		<u>19,474</u>		<u>19,068</u>
NET ASSETS			<u>45,370</u>		<u>58,816</u>
CAPITAL AND RESERVES					
Called up share capital	15		75		75
Share premium account	16		1,317		1,317
Other reserves	16		131		131
Profit and loss account	16		<u>43,847</u>		<u>57,293</u>
CAPITAL AND RESERVES			<u>45,370</u>		<u>58,816</u>

DIRECTORS

6th January 1987

GENERAL FOODS LIMITED

BALANCE SHEET AT 29 NOVEMBER 1986

	Notes	November 1986		November 1985	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	8		35,047		29,023
Investments in group companies	10		7,255		6,346
Other fixed assets investments	10		<u>927</u>		<u>-</u>
			43,229		35,369
CURRENT ASSETS					
Stocks	11	23,182		19,747	
Debtors	12	46,084		34,775	
Cash at bank and in hand		<u>1,466</u>		<u>15,731</u>	
		70,732		70,253	
CREDITORS: amounts falling due within one year	13	<u>56,649</u>		<u>36,834</u>	
NET CURRENT ASSETS			<u>14,083</u>		<u>33,419</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			57,312		68,788
CREDITORS: amounts falling due after more than one year	14		<u>18,540</u>		<u>18,540</u>
NET ASSETS			<u>38,772</u>		<u>50,248</u>
CAPITAL AND RESERVES					
Called up share capital	15		75		75
Share premium account	16		1,317		1,317
Profit and loss account	16		<u>37,380</u>		<u>48,856</u>
CAPITAL AND RESERVES			<u>38,772</u>		<u>50,248</u>

DIRECTORS

6th January 1987

GENERAL FOODS LIMITED AND ITS SUBSIDIARIES

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE PERIOD ENDED 29 NOVEMBER 1986

	November 1986		November 1985	
	£'000	£'000	£'000	£'000
SOURCE OF FUNDS				
Profit on ordinary activities before taxation		11,503		9,728
Adjustment for items not involving the movement of funds:				
Depreciation		3,619		2,379
Loss on sale of fixed assets		390		16
		<hr/>		<hr/>
TOTAL GENERATED FROM OPERATIONS		15,512		12,123
FUNDS FROM OTHER SOURCES				
Sale of tangible fixed assets		26		20
Loans				
Repayment of loan		950		10,947
		<hr/>		<hr/>
		16,488		23,090
APPLICATION OF FUNDS				
Purchase of tangible fixed assets	(10,682)		(7,957)	
Taxation paid	(5,853)		(1,211)	
Repayment of loans	-		(4,000)	
Dividends paid	(21,300)		-	
Acquisition prepayments	(927)		-	
		<hr/>		<hr/>
		(38,762)		(13,168)
		<hr/>		<hr/>
		(22,274)		9,922
		<hr/>		<hr/>
REPRESENTED BY:				
Increase/(Decrease) in working capital				
Stocks	3,874		(5,197)	
Debtors	10,893		6,121	
Creditors	(22,775)		(3,751)	
		<hr/>		<hr/>
		(8,008)		(2,827)
Increase in net liquid funds		(14,266)		12,749
		<hr/>		<hr/>
		(22,274)		9,922
		<hr/>		<hr/>

GENERAL FOODS LIMITED AND ITS SUBSIDIARIES

NOTES TO THE ACCOUNTS - 29 NOVEMBER 1986

1. ACCOUNTING POLICIES

(1) Turnover

Turnover comprises the selling value, after deduction of any allowances and taxes, of goods sold as a principal in the ordinary course of business.

(2) Depreciation

Fixed assets are stated at cost less depreciation which is provided on a straight-line basis over the estimated useful lives of the assets as follows:-

	<u>Estimated useful life</u>
Buildings	25 years to 40 years
Machinery and equipment	3 years to 15 years
Fork lift trucks	5 years to 8 years
Computer hardware	5 years to 10 years
Research equipment	5 years to 15 years
Capitalised leases	the life of the lease

No depreciation is charged on freehold land

(3) Stocks

Inventories are stated at the lower of cost, including an appropriate share of manufacturing overheads, and net realisable value.

(4) Deferred taxation

Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise.

(5) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at exchange rates in operation when the transaction occurred. Exchange gains and losses on settled transactions are reported in the profit and loss account. Assets and liabilities in foreign currencies have been expressed in sterling at the rates ruling at the end of the period and any gains or losses reported in the profit and loss accounts.

(6) Research and development costs

All research and development costs are expensed as incurred.

(7) Basis of consolidation

The financial statements represent a consolidation of the statements of General Foods Limited and its operating subsidiaries, Coffee Hag (UK) Limited and Maxpax (UK) Limited.

GENERAL FOODS LIMITED AND ITS SUBSIDIARIES

NOTES TO THE ACCOUNTS - 29 NOVEMBER 1986

2. SEGMENT INFORMATION

The geographical analysis of the group's turnover is as follows:

	<u>November</u> <u>1986</u> <u>£'000</u>	<u>November</u> <u>1985</u> <u>£'000</u>
United Kingdom	227,416	148,268
Europe	7,847	4,017
Others	3,369	3,688
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	238,632	155,973
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3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>November</u> <u>1986</u> <u>£'000</u>	<u>November</u> <u>1985</u> <u>£'000</u>
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Wages and salaries	23,981	16,933
Social security costs	1,897	1,131
Other pension costs	2,456	1,775
Depreciation (Note 8)	3,619	2,379
Directors' emoluments (Note 4)	542	363
Hire of equipment and vehicles	1,921	1,456
Auditors' remuneration	55	57
Interest payable on bank overdrafts and other loans wholly repayable within five years	210	543
Interest payable on loans from group companies wholly repayable within five years	1,961	1,468
Bank and other interest receivable	(1,839)	(1,291)

GENERAL FOODS LIMITED AND ITS SUBSIDIARIES

NOTES TO THE ACCOUNTS - 29 NOVEMBER 1986

4. EMOLUMENTS OF THE DIRECTORS

The emoluments of the chairman were £Nil (November 1985 - £Nil).
The highest paid director received £95,191 (November 1985 - £53,962 nine months.)

Emoluments paid to other directors, excluding pension contributions, fell within the following ranges per annum.

		November 1986	November 1985
£0	-	4	5
£20,001	-	-	1
£30,001	-	-	2
£35,001	-	-	2
£40,001	-	-	2
£45,001	-	2	-
£50,001	-	2	-
£55,001	-	2	-
£60,001	-	1	-
£65,001	-	1	-

Emoluments paid to other employees in excess of £30,000, excluding pension contributions, fell within the following ranges per annum.

£30,000	-	10	-
£35,001	-	7	-
£40,001	-	1	-

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

November 1986	November 1985
£'000	£'000

Taxation on the profit on ordinary activities
for the year:

UK corporation tax at 36.7% (November 1985 40%)	3,903	2,209
Prior year provisions no longer required	(254)	(13)
	<hr/> 3,649	<hr/> 2,196

The charge for taxation on the profit on ordinary activities for the year has been reduced by £500,000 (November 1985 - £1,157,000) in respect of accelerated capital allowances of £1,364,000 (November 1985 - £2,853,000) for which no deferred taxation has been provided and by group relief in the subsidiaries of £Nil (November 1985 £936,936).

GENERAL FOODS LIMITED AND ITS SUBSIDIARIES

NOTES TO THE ACCOUNTS - 29 NOVEMBER 1986

6. POTENTIAL DEFERRED TAXATION

No provision for deferred taxation has been made this period as no actual liability is expected to arise from the reversal of timing differences in the foreseeable future. The potential amount of deferred taxation not provided on all timing differences is as follows:-

	Group		Company	
	November 1986 £'000	November 1985 £'000	November 1986 £'000	November 1985 £'000
Accelerated capital allowances	10,325	9,749	9,054	8,430
Other timing differences	(339)	(173)	(335)	(169)
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	9,986	9,576	8,719	8,261
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7. GENERAL FOODS LIMITED PROFIT AND LOSS ACCOUNT

General Foods Limited has not presented its own profit and loss account as permitted by Section 228(7) of the Companies Act 1985. The amount of profit after taxation for the financial year dealt with in the accounts of the holding company is £4,624,000 (November 1985 - £4,273,000).

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GENERAL FOODS LIMITED AND ITS SUBSIDIARIES

NOTES TO THE ACCOUNTS - 29 NOVEMBER 1986

8. TANGIBLE ASSETS - GROUP

COST	Freehold land and buildings £'000	Plant and equipment £'000	Construction work in progress £'000	Capitalised leases £'000	Total £'000
At 30 November 1985	8,539	37,367	8,196	128	54,230
Additions	-		10,682	-	10,682
Disposals	(9)	(1,505)	(35)	-	(1,549)
Transfers	530	9,980	(10,510)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 29 November 1986	9,060	45,842	8,333	128	63,363
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
DEPRECIATION					
At 30 November 1985	3,636	16,110	-	128	19,874
Charge for period	283	3,336	-	-	3,619
Relating to disposals	(6)	(1,127)	-	-	(1,133)
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At 29 November 1986	3,913	18,319	-	128	22,360
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK AMOUNT					
At 29 November 1986	5,147	27,523	8,333	-	41,003
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At 30 November 1985	4,903	21,257	8,196	-	34,356
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GENERAL FOODS LIMITED AND ITS SUBSIDIARIES

NOTES TO THE ACCOUNTS - 29 NOVEMBER 1986

8. TANGIBLE ASSETS - COMPANY
CONTINUED

COST	Plant and equipment £'000	Construction work in progress £'000	Capitalised leases £'000	Total £'000
At 30 November 1985	37,367	7,766	128	45,261
Additions	-	9,773	-	9,773
Disposals	(1,505)	(35)	-	(1,540)
Transfers	9,980	(9,980)	-	-
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At 29 November 1986	45,842	7,524	128	53,494
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DEPRECIATION				
At 30 November 1985	16,110	-	128	16,238
Charge for period	3,336	-	-	3,336
Relating to disposals	(1,127)	-	-	(1,127)
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At 29 November 1986	18,319	-	128	18,447
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NET BOOK AMOUNT				
At 29 November 1986	27,523	7,524	-	35,047
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At 30 November 1985	21,257	7,766	-	29,023
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GENERAL FOODS LIMITED AND ITS SUBSIDIARIES

NOTES TO THE ACCOUNTS - 29 NOVEMBER 1986

9. CAPITAL COMMITMENTS

	<u>Group and Company</u>	
	<u>November</u>	<u>November</u>
	<u>1985</u>	<u>1985</u>
	<u>£'000</u>	<u>£'000</u>
Future capital expenditure contracted for but not yet provided	3,992	1,223
Authorised by the directors but not contracted for	12,642	4,832

10. INVESTMENTS INCLUDED IN FIXED ASSETS

Shares in group companies

	<u>Cost</u>	<u>Provision</u>	<u>Net</u>	<u>Loans to</u>	<u>Total</u>
	<u>£'000</u>	<u>£'000</u>	<u>Book</u>	<u>Group</u>	<u>£'000</u>
			<u>Amount</u>	<u>Companies</u>	
			<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
At 30 November 1985	317	(100)	217	6,129	6,346
Net advances	-	-	-	909	909
At 29 November 1986	317	(100)	217	7,038	7,255

The company's operating subsidiaries which are both wholly-owned are Coffee Hag (UK) Limited and Maxpax (UK) Limited. The company's non-operating subsidiaries are General Foods (Pension Trustees) Limited and Alfred Bird & Sons (Pension Trustees) Limited, both of which are also wholly-owned. Neither company has traded during the period and they have not been consolidated. The post acquisition accumulated deficits of the non-operating companies are as follows:

	<u>November</u>	<u>November</u>
	<u>1986</u>	<u>1985</u>
	<u>£'000</u>	<u>£'000</u>
General Foods (Pension Trustees) Limited	-	-
Alfred Bird & Sons (Pension Trustees) Limited	100	100
	100	100

Other fixed assets investments

During the year option and other payments amounting to £927,000 were made in respect of the acquisition of the Kenco Coffee Company Limited. The acquisition was completed on January 3rd 1987.

GENERAL FOODS LIMITED AND ITS SUBSIDIARIES

NOTES TO THE ACCOUNTS - 29 NOVEMBER 1986

11. STOCKS

	<u>Group</u>		<u>Company</u>	
	<u>November</u>	<u>November</u>	<u>November</u>	<u>November</u>
	<u>1986</u>	<u>1985</u>	<u>1986</u>	<u>1985</u>
	£'000	£'000	£'000	£'000
Raw materials and consumables	7,403	6,919	7,336	6,882
Work in progress	1,842	2,288	1,842	2,288
Finished goods and goods for resale	14,878	12,343	12,532	10,406
Payments on account	1,472	171	1,472	171
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	25,595	21,721	23,182	19,747
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12. DEBTORS

	<u>Group</u>		<u>Company</u>	
	<u>November</u>	<u>November</u>	<u>November</u>	<u>November</u>
	<u>1986</u>	<u>1985</u>	<u>1986</u>	<u>1985</u>
	£'000	£'000	£'000	£'000
Trade debtors	29,170	26,469	29,170	26,469
Amounts owed by group companies	12,097	6,661	13,091	6,285
Other debtors	2,789	1,271	2,775	1,261
Prepayment and accrued income	1,048	760	1,048	760
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	45,104	35,161	46,084	34,775
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GENERAL FOODS LIMITED AND ITS SUBSIDIARIES

NOTES TO THE ACCOUNTS .. 29 NOVEMBER 1986

13. CREDITORS (amounts falling due within one year)

	Group		Company	
	November	November	November	November
	1986	1985	1986	1985
	£'000	£'000	£'000	£'000
Trade creditors	14,181	10,343	13,707	9,973
Short term loans	15,000	-	15,000	-
Amounts owed to subsidiary companies	-	-	9,397	9,104
Owing to other group companies	1,061	725	738	597
Taxation and social security	4,165	6,689	2,968	5,831
Accruals and deferred income	14,851	11,336	14,839	11,329
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	49,258	29,093	56,649	36,834
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14. CREDITORS (amounts falling due after more than one year)

	Group		Company	
	November	November	November	November
	1986	1985	1986	1985
	£'000	£'000	£'000	£'000
Loans from fellow subsidiaries	18,540	18,540	18,540	18,540
Taxation	934	528	-	-
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	19,474	19,068	18,540	18,540
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Loans from fellow subsidiaries comprise:-

- £3,537,000 repayable on 26 September 1988. Interest rates were 7 3/8% per annum up to 26 September 1983, and 7½% per annum thereafter.
- £3,000 of no fixed term and non interest bearing.
- £15,000,000 repayable on 7 February 1990 interest fixed at 11 1/4% per annum.

GENERAL FOODS LIMITED AND ITS SUBSIDIARIES

NOTES TO THE ACCOUNTS - 29 NOVEMBER 1986

15 CALLED UP SHARE CAPITAL

Ordinary shares of £1 each

	<u>November</u> <u>1986</u> £'000	<u>November</u> <u>1985</u> £'000
Authorised	410	410
	—	—
Allotted and fully paid	75	75
	—	—

.6 RESERVES

	<u>Group</u>			
	<u>Share</u> <u>Premium</u> <u>Account</u> £'000	<u>Profit &</u> <u>Loss</u> <u>Account</u> £'000	<u>Other</u> <u>Reserves</u> £'000	<u>Total</u> £'000
At the beginning of the year	1,317	57,293	131	58,741
Loss for the year	—	(13,446)	—	(13,446)
	—	—	—	—
At the end of the year	1,317	43,847	131	45,295
	—	—	—	—
	<u>Company</u>			
	<u>Share</u> <u>Premium</u> <u>Account</u> £'000	<u>Profit &</u> <u>Loss</u> <u>Account</u> £'000		<u>Total</u> £'000
At the beginning of the year	1,317	48,856		50,173
Loss for the year	—	(11,476)		(11,476)
	—	—		—
At the end of the year	1,317	37,380		38,697
	—	—		—

Other reserves arise on consolidation of Coffee Hag (UK) Limited and are not distributable.

GENERAL FOODS LIMITED AND ITS SUBSIDIARIES

NOTES TO THE ACCOUNTS - 29 NOVEMBER 1986

17 PENSION COMMITMENTS

The group has established contributory pension plans which provide retirement benefits for all employees. The group's policy is to fund current service cost and amortise unfunded liabilities for back service benefits over varying periods of up to 30 years.

An independent actuarial valuation at 1 July 1986 disclosed that the market value of assets exceeded the value of benefits for which the trustees would have been liable had all members left service on that date.

18. EMPLOYEES

The average number of persons employed by the group during the year was:

	November <u>1986</u>	November <u>1985</u>
United Kingdom	1801	1849

19. ULTIMATE HOLDING COMPANY

The company's ultimate holding company is Philip Morris Companies Inc., incorporated in the United States of America.